

**U.S. CUSTOMS SERVICE
OFFICE OF STRATEGIC TRADE
REGULATORY AUDIT DIVISION**

**CONTROLLED ASSESSMENT METHODOLOGY
WITHIN THE
COMPLIANCE ASSESSMENT PROGRAM**

**U.S. CUSTOMS SERVICE
OFFICE OF STRATEGIC TRADE
REGULATORY AUDIT DIVISION**

**CONTROLLED ASSESSMENT METHODOLOGY
WITHIN THE
COMPLIANCE ASSESSMENT PROGRAM**

INDEX

	Page
A. Background	3
B. How Importers Initiate the Process	4
C. Customs Responsibilities and Procedures	4
1. Explaining the Program	4
2. Establishing and Monitoring the Staff's Work Plan	4
3. Verifying the Staff's Work	4
4. Completing the Work Plan	5
5. Preparing the Compliance Assessment Report	5
D. Importer's Responsibilities and Procedures	5
1. Performing a Macro Test	5
2. Preparing a Flow Chart and Narrative	5
3. Providing Timely Response to Questionnaires	5
4. Assessing Internal Controls	6
5. Testing Import Transactions	6
a. Cooperative Testing Plan	6
b. Record Test Data	6
c. Determine Compliance Rates	6
6. Quantifying Revenue Loss	6
7. Preparing the Compliance Improvement Plan	7
E. Third Party Practitioners	7

**U.S. CUSTOMS SERVICE
OFFICE OF STRATEGIC TRADE
REGULATORY AUDIT DIVISION**

**CONTROLLED ASSESSMENT METHODOLOGY
WITHIN THE
COMPLIANCE ASSESSMENT PROGRAM**

A. Background

The Controlled Assessment Methodology (CAM) is a part of the Compliance Assessment Program. The CAM is a joint effort on the part of an importer and the U.S. Customs Service (Customs) to review the company's import procedures, internal controls exercised over those procedures, and the import transactions using statistical sampling. The purpose of the review and statistical sampling is to determine the adequacy of the importer's internal controls over Customs transactions and the importer's level of compliance with Customs regulations. The CAM has the same test and sampling parameters as a Compliance Assessment/Audit (CA), except that the importer provides staff (importer's employees or consultants) to the CA Team (CAT).

The objective of this team approach is the expeditious completion of the CAM. In order to accomplish this objective the CAT and the staff must agree with the following conditions: (1) the applicable audit steps in the Compliance Assessment (Audit) Program (see CAT KIT) that the staff will complete; (2) the definition of a "material discrepancy" for each sample test as defined in the CAT KIT; and (3) a mutually acceptable completion date for each assigned audit step. To avoid any misunderstanding the CAT will provide the importer with a work plan, a written summary of agreed upon conditions. If all of the conditions listed above are not met, the CAM cannot be used; and the CAT will proceed with the CA.

In a CAM the CAT explains what is to be done by the staff, why it is to be done, and how it is to be done. In essence the CAT acts as a consultant to the staff. The CAT then steps back while the staff performs each agreed upon steps. This stepping back is to enable importers to avail themselves of the prior disclosure provisions contained in 19 CFR 162.74 should the staff uncover a violation of Customs laws and regulations during their review. The CAT is available to answer questions during the period that the staff is performing their review. The CAT also reviews the importer's initial efforts in each audit step to be certain that instructions are understood and that the staff is proceeding according to the plan. When the audit steps are completed, the CAT will return and perform a complete review of the work papers and documents, including a 100 percent verification of the test samples, to ensure that the work was done accurately.

Besides receiving the opportunity to avail themselves of the Customs Prior Disclosure provisions, importers utilizing CAM will realize: (1) a less intrusive CA process; (2) improved importer understanding of its own import operations; and (3) elimination of duplicate effort which frequently occurs when importers self-assess their operations without Customs guidance.

B. How Importers Initiate the Process

All importers selected for a CA may elect to utilize the CAM, as opposed to having the Customs team perform all of the necessary reviews and tests. A company intending to use the CAM should notify the appropriate Regulatory Audit Division Field Director within 30 to 45 days following the advance conference.

C. Customs Responsibilities and Procedures

1. Explaining the Program

The CAT will explain and guide the designated company staff through the CAM. Each required step in the work plan, that the staff is to complete, will be explained, as will the sampling plan. The CAT will also explain the procedures found in 19 CFR 162.74 for filing a prior disclosure and tendering any additional duties and fees due to the appropriate port director(s) should the staff find material deviations from Customs regulations during the course of their review. It is important that the staff make the appropriate prior disclosure(s) since the CAT is duty bound to refer all unreported material deviations from Customs regulations to the applicable Customs Enforcement Evaluation Team for appropriate action. To facilitate the prior disclosure process the CAT will then step back and allow the importer to complete the required work. The CAT will be available, however, to answer all questions that arise during the CAM and to review the initial efforts of the importer, in each review area, to ensure that the importer is proceeding according to plan.

2. Establishing and Monitoring the Staff's Work Plan

Since Customs goal is to complete the CAs within nine months of the opening conference, the CAT Leader, in managing the CAT, has task-completion time guidelines and monthly- status reporting responsibilities. The mutually agreed-upon target dates for the staff to complete each of their work plan segments will be incorporated into the CAT leader's Monthly Status Report. If during the course of the CAM it becomes apparent that the work plan time line segments may not be met, the Assistant Field Director will advise the importer that it may be necessary to terminate the CAM and have the CAT take whatever action deemed appropriate.

3. Verifying the Staff's Work

The CAT will review the initial efforts of the staff in each review area to ensure that they are proceeding according to plan.

The CAT and the staff will schedule a time for the CAT to perform a complete review of the work papers and documents including a 100 percent verification of the test samples to ensure that the work is accurate and complete.

4. Completing the Work Plan

Upon notification from the company that they are unable or unwilling to complete their designated portion(s) of the work plan; the CAT will take appropriate action to complete those remaining sections of the work plan.

5. Preparing the Compliance Assessment Report

The CAT will prepare and discuss the applicable Assessment/Audit Results Forms with the Importer in an effort to arrive at consensus/understanding of the CA conclusions. Following the discussion the CAT will complete the CA Report.

D. Importer's Responsibilities and Procedures

1. Performing a Macro Test

One of the first steps to be performed in a CAM is a macro test. This test involves comparing Customs import data with the company's financial transactions that relate to imports and is of use in identifying the universe from which statistical samples will be generated. Generally a difference of 5 percent or less would be acceptable. Differences greater than 5 percent would have to be reconciled to ensure that the sample of records is taken from a reasonably complete universe of records. The Customs Computer Audit Specialist (CAS) works with the importer to perform the test. This test should be conducted, as soon as possible, following notification that the importer will participate in the CAM.

2. Preparing a Flow Chart and Narrative

The staff will prepare a flow chart and/or description of the company's import process that clearly describes the logistical and financial cycles applicable to the imported products (see CAT KIT – General Questionnaire for Compliance Assessment, Section C, "Record Keeping Systems"). These descriptions include research and development costs, price negotiations, and final payment for the imported products. The flow chart and narrative should include the types of internal controls that are exercised over Customs transactions.

3. Providing Timely Response to Questionnaires

At the CA advance conference, Customs provides the importer with the CAT KIT that is designed to familiarize the importer with the procedures and expectations of the CA process. Included in the CAT KIT are proforma versions of the General and EDP Questionnaires.

The General Questionnaire may be supplemented with additional questions during the CAM. The importer is to provide specific and detailed responses to all questions (those in the questionnaire as well as the supplementary questions, if any) regarding the entity's organizational structure, accounting systems, and business practices related to import transactions. The importer is required to disclose all requested information.

4. Assessing Internal Controls

The description of the company's accounting, EDP systems, and related internal controls pertaining to Customs transactions (outlined on the import's flow chart and narrative and described in the Importer Audit Program section of the CAT KIT under "Customs Procedures and Related Internal Controls") may be prepared by the staff and verified by the CAT.

The purpose of the review of the flow chart is to: (a) ascertain whether controls are in place to ensure a sustained high-level of compliance with trade laws and Customs regulations, and (b) to determine which transactions and records are to be examined in order to determine the company's rates of compliance.

5. Testing Import Transactions

a. Cooperative Testing Plan.

To ensure fair, successful, and uniform testing of transactions among importers, the CAT, with participation of the staff, will develop an objective testing plan (see Compliance Testing Exhibits in the CAT KIT). The testing plan will include the objective, universe, frame, parameters and the sample size or number of samples to be selected for each area tested. Each plan will be developed after the CAT and the staff have reviewed the information available, including the accounting system and related internal controls.

b. Record Test Data

Specific data for each test item is recorded by the staff on a work sheet(s) the design of which will be mutually agreed upon with the CAT. After the 100 percent review of the work sheet(s) and related documents (identified in Section C 3 and in the CAT KIT) is completed the work sheets will become part of the CAT's work paper files.

c. Determine Compliance Rates

A Letter of the Law (LOL) compliance rate in each of the areas of review is determined by the number of errors in the sample, the universe size, sample confidence level and sample precision. All errors are counted in determining the LOL compliance rate. The materiality of errors in the sample will be determined using the materiality guidelines (see CAT KIT). If a compliance rate (after giving effect to the materiality factor) is unacceptable to Customs in any area tested, the CAT will work with the staff to determine the cause and effect (including revenue loss) of the noncompliance.

6. Quantifying Revenue Loss

It may be advantageous to both the company and Customs to project the findings of the original sample to the sampled universe to quantify the effect of noncompliance. If the company does not concur with projecting the sampling results over the universe, the staff

may be asked to review additional transactions in the areas of noncompliance to quantify the revenue loss. If the staff does not review the additional transactions the CAT will use all reasonable means, including selection and review of additional samples of transactions to quantify the loss of revenue.

7. Preparing the Compliance Improvement Plan

When the cause of each material noncompliance is identified, or if internal controls need improvement, the staff, with the help of the CAT, will develop a compliance improvement plan (CIP). The development and successful implementation of the CIP will conclude the staff's participation in the CAM.

E. Third Party Practitioners

In some instances importers engage the services of third party practitioners (law firms, accounting firms, customhouse brokers or others) to assist in the preparation of the CAM (as they do with non CAM CAs). These arrangements are strictly between the importer and the third party practitioner. Customs is not involved with these arrangements in any manner including: 1) encouraging or discouraging their use; 2) recommending a particular practitioner; or 3) dissuading an importer from using a practitioner in general or in particular.

Under no circumstances is any member of a CAT to sign an agreement acknowledging the participation of a practitioner in a CAM or CA regardless of seemingly innocuous wording in the agreement.

Customs has not authorized or approved any practitioner to conduct a CAM or CA on behalf of Customs. Importers, however, do have a right to obtain the assistance from anyone of their choice to help them prepare information required by CA's and CAM's, but they do so without Customs sanction.